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EDUCATION | RESOURCES

Crypto Tax Basics

Understanding how digital assets are taxed —
and the strategies fiduciary advisors actually use.

2026 EDITION
An educational guide from Kimberlite Financial Services

INTRODUCTION

Read this first.

Crypto tax law is one of the fastest-moving corners of the U.S. tax code. The IRS has been issuing guidance in pieces since 2014, and the rules that apply to you in 2026 are meaningfully different from the rules that applied even one filing season ago. This guide is built to give you the plain-English version — the history of how we got here, where the rules stand today, the most common taxable events, and the strategies a fiduciary advisor actually uses to help clients keep more of what they earn.

It is written for individual investors and business owners in Utah and across the United States who hold, trade, stake, mine, or get paid in digital assets. It is not written for accountants, and it does not pretend to cover every edge case.

> **IMPORTANT — EDUCATIONAL USE ONLY.** This guide is provided for general informational and educational purposes. It is **not** tax advice, legal advice, accounting advice, or a recommendation to take any specific action. Tax law changes frequently, applies differently to each taxpayer, and depends heavily on facts you have not shared with us. Before you act on anything in this guide, talk to a qualified tax professional — ideally a CPA or Enrolled Agent who actively works with digital assets. If a passage in this guide makes you wonder 'does that apply to me?', the answer is: ask a pro.

How to use this guide

Read it cover to cover the first time. After that, treat it as a reference. The history section in particular helps you understand *why* the current rules look the way they do — which makes it much easier to spot when a new rule shows up and changes the picture.

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PART 1

How we got here: a short history of crypto tax in the U.S.

Crypto did not get its own chapter in the tax code. Instead, the IRS has slotted it into existing frameworks — mostly the rules for property — and then issued a series of notices, revenue rulings, and regulations that sand down the rough edges. Here is the short version of the timeline.

2014

Notice 2014-21
The first major guidance. The IRS declares that virtual currency is treated as **property**, not currency, for federal tax purposes. That single decision drives almost everything that follows: every sale, trade, or spend is a potential capital gain or loss event.

2019

Revenue Ruling 2019-24 + new FAQs
The IRS clarifies how **hard forks and airdrops** are taxed. If you receive new tokens you can sell or transfer ('dominion and control'), the fair market value at receipt is **ordinary income**, and that amount becomes your cost basis going forward.

2021

Infrastructure Investment and Jobs Act
Congress amends Internal Revenue Code §6045 to expand the definition of 'broker' to include digital asset platforms. This is the legal foundation for the Form 1099-DA reporting regime that is rolling out now.

2023

Revenue Ruling 2023-14
The IRS confirms that **staking rewards** are ordinary income, taxed at fair market value as of the moment you gain dominion and control over the rewards — whether you stake directly or through a centralized exchange.

2024

Final broker reporting regs + Rev. Proc. 2024-28
Treasury finalizes the broker reporting rules and the IRS publishes a **safe harbor** for allocating cost basis on a wallet-by-wallet (or account-by-account) basis as of January 1, 2025. Universal-pool accounting across wallets effectively ends.

2025

Form 1099-DA reporting begins
Custodial brokers (centralized exchanges, certain wallet providers, kiosks, and some payment processors) must report **gross proceeds** for digital asset sales effected on or after January 1, 2025. Cost basis reporting is not yet required for the 2025 tax year.

2026

Cost basis reporting expands
For digital assets that are **covered securities**, brokers must begin reporting **cost basis** on Form 1099-DA for transactions on or after January 1, 2026. The IRS now has, for the first time, a matching engine for crypto similar to what it has long had for stocks.

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PART 2

Where the rules stand in 2026.

Digital assets are property. Always start there.

Because the IRS treats crypto as property, every disposition is potentially a capital gain or loss event — just like selling a share of stock or a piece of real estate. The amount of gain or loss is the difference between your **cost basis** (what you paid for it, in U.S. dollars, plus any fees) and the **fair market value** at the time of disposition.

Short-term vs. long-term — the most important rule on this page.

If you hold for **one year or less** before disposing, any gain is **short-term** and is taxed at your ordinary income rates (currently 10% to 37% federal). If you hold for **more than one year**, the gain is **long-term** and is taxed at the preferential 0%, 15%, or 20% federal rates. For most investors, that one-year mark is the single biggest lever in their crypto tax bill.

Long-term rate	Single (taxable income up to)	Married filing jointly (up to)
0%	$49,450	$98,900
15%	$545,500	$613,700
20%	above $545,500	above $613,700

2026 IRS thresholds. Add a 3.8% Net Investment Income Tax above the relevant MAGI thresholds. State income tax is separate; Utah currently applies a flat state rate.

Form 1099-DA changes the game.

Beginning with the 2025 tax year, custodial brokers (centralized exchanges, certain hosted wallet providers, digital asset kiosks, and some payment processors) must issue **Form 1099-DA** reporting gross proceeds. Beginning with the 2026 tax year, those same brokers must begin reporting **cost basis** for covered digital assets. In practical terms: the IRS will now receive its own copy of many of your transactions. Reconciling what the broker reported with what actually happened in your wallets is becoming the single most important crypto tax-prep task.

Wallet-by-wallet basis tracking is now the law.

For years, many taxpayers used a ‘universal pool’ method — treating all of their Bitcoin (for example) as a single combined inventory regardless of which wallet or exchange held the coins. **Revenue Procedure 2024-28** ended that. As of January 1, 2025, you must track cost basis **per wallet and per account**. The Rev. Proc. provided a one-time safe harbor allowing taxpayers to allocate previously unused basis to specific wallets as of January 1, 2025; that allocation, once made, is irrevocable. Going forward, when you sell, you are selling a specific lot from a specific wallet — and your records need to reflect that.

The digital asset question on Form 1040.

Every U.S. tax return now includes a yes/no question at the top of Form 1040 asking whether you received, sold, exchanged, or otherwise disposed of a digital asset during the year. **You must answer it, every year, whether or not you owe tax on a digital asset transaction.** Buying and holding crypto with U.S. dollars is generally a ‘no.’ Selling, swapping, spending, earning, mining, staking, receiving an airdrop, or receiving a hard-fork payout is generally a ‘yes.’ Lying on this question is the kind of mistake that turns a routine return into a bad day.

> ***The big picture in one sentence:*** *the IRS now sees crypto more like a brokerage account — with broker reporting, per-account cost basis, and a yes/no question on every return — and your recordkeeping has to catch up to that reality.*

PART 3

The taxable events you actually run into.

Here are the events that trip people up most often, with the general U.S. tax treatment as of 2026. Edge cases are common; verify with a tax professional before you act.

Selling crypto for U.S. dollars	Capital gain or loss. Holding period determines short-term vs. long-term.
Trading one crypto for another (e.g., BTC for ETH)	Treated as a sale. You realize gain or loss in U.S. dollar terms even though no dollars changed hands.
Spending crypto on goods or services	Treated as a sale of the crypto at its fair market value, plus the normal sales/use tax on the purchase. Yes — that coffee can be a taxable event.
Receiving crypto as payment for work	Ordinary income at fair market value when received. If you are an employee, it is wages. If you are self-employed, it is business income on Schedule C and may also be subject to self-employment tax.
Mining rewards	Ordinary income at fair market value when received. If you mine as a trade or business, you may also owe self-employment tax and may be able to deduct related expenses.
Staking rewards (Rev. Rul. 2023-14)	Ordinary income at fair market value at the moment you gain dominion and control. The same value becomes your cost basis in the new tokens going forward.
Hard forks with an airdrop (Rev. Rul. 2019-24)	Ordinary income at fair market value when the new tokens are recorded to your wallet and you can transact with them.
Promotional airdrops and rewards	Generally ordinary income at fair market value when received.
NFT sales	Capital gain or loss. Some NFTs may be classified as collectibles, which can be taxed at higher long-term rates — up to 28%. Treatment is fact-specific.
DeFi activity (lending, LP positions, wrapping, bridging)	Some events are clearly taxable (rewards earned), others are unsettled (token wraps, LP token issuance/redemption). This is the single biggest gray-zone area — involve a tax pro early.
Gifting crypto	Generally not a taxable event for the giver up to the annual gift exclusion. The recipient takes the giver's basis. Large gifts may require a gift tax return.

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Donating appreciated crypto to a qualified charity	Generally no capital gain recognized, and you may be able to deduct the full fair market value (with limits). One of the most powerful planning tools available.
Transferring between your own wallets	Not a taxable event — but you must track basis through the move. With wallet-by-wallet basis, this matters more than it used to.

PART 4

Strategies that actually move the needle.

These are general strategies fiduciary advisors discuss with clients. Whether any of them apply to your situation depends entirely on your facts — income, holdings, time horizon, state of residence, and goals. Treat the list below as a menu of conversation starters with your tax pro, not a prescription.

1. Hold past the one-year mark when you can.

The single biggest lever in most crypto tax bills is converting a short-term gain (taxed as ordinary income, up to 37% federal) into a long-term gain (0%, 15%, or 20%). For a taxpayer in the 32% bracket, that is up to 17 percentage points of pure tax savings — before you even touch state tax or the Net Investment Income Tax.

2. Tax-loss harvesting — while you still can.

Selling losing positions to offset capital gains (and up to $3,000 of ordinary income per year) is a core tax-management technique. **Crypto is currently not subject to the wash-sale rule** that applies to securities, which means — under current law — you can sell at a loss and immediately repurchase. Congress has repeatedly proposed extending the wash-sale rule to digital assets, so this window may not stay open forever. Document every harvest.

3. Choose a cost-basis method intentionally.

When you sell from a wallet that holds many lots acquired at different prices, the lot you choose to sell determines your gain. Common methods: **FIFO** (oldest first — the IRS default for many brokers), **LIFO** (newest first), **HIFO** (highest cost first — minimizes current gain), and **specific identification** (you pick the exact lot, with documentation). Specific ID, used consistently and well-documented, is generally the most powerful approach — but it requires real recordkeeping discipline.

4. Donate appreciated crypto to charity.

Donating a coin you have held for more than one year to a qualified 501(c)(3) generally lets you deduct the full fair market value **and** avoid recognizing the embedded capital gain. For high-conviction holders sitting on large unrealized gains, this is one of the highest-leverage planning moves available. A donor-advised fund that accepts crypto can simplify the logistics.

5. Time realizations across tax years.

If you know you have a low-income year coming (a sabbatical, a business loss, retirement, a year with large itemized deductions), it may pay to recognize gains in that year. If you know next year will be your highest income year ever, defer where you can.

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6. Use tax-advantaged accounts where appropriate.

Some self-directed IRAs and certain qualified retirement structures can hold digital assets. When they do, gains compound without an annual tax drag, and qualified Roth distributions are tax-free. These accounts come with custody, valuation, and prohibited-transaction rules that are easy to violate — do not set one up without professional guidance.

7. Watch your state.

Federal tax is only part of the bill. Utah currently applies a flat state income tax to capital gains and ordinary income alike. Other states tax capital gains at different rates, and a small number of states have no state income tax at all. If you are considering a relocation, the timing of your major realizations relative to that move can make a meaningful difference.

8. Reconcile every 1099-DA you receive.

With brokers now reporting to the IRS, the worst thing you can do is ignore a 1099-DA that does not match your records. Reconcile early. Disputes resolved in February are easy; the same disputes resolved during an exam are expensive.

Recordkeeping — the foundation under everything else.

Every strategy in this guide depends on records. At minimum, for each transaction you should be able to produce: the date and time, the asset, the quantity, the U.S. dollar fair market value at the time, the wallet or exchange involved, the counterparty (if applicable), the transaction hash, and any fees. Most clients use third-party crypto tax software that pulls from their exchanges and on-chain addresses; the software is only as good as the data you give it, so review every imported transaction.

Audit risk red flags

- Answering ‘no’ to the digital asset question on Form 1040 when you had taxable activity.
- Receiving a Form 1099-DA that you do not report on your return.
- Reporting amounts that materially diverge from broker-reported gross proceeds.
- Large, unexplained transfers between exchanges and self-custody wallets near year-end.
- Claiming losses without supporting transaction records.
- Significant DeFi or NFT activity reported with rounded or estimated figures.

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PART 5

Plain-English glossary.

Capital asset	Property held for investment. Crypto qualifies.
Capital gain / loss	The difference between what you sell something for and your cost basis.
Cost basis	What you paid for an asset in U.S. dollars, including fees. The number every tax calculation starts from.
Covered security	An asset for which the broker is required to report cost basis to the IRS. Beginning in 2026, certain digital assets fall in this category.
Disposition	Any event that ends your ownership of an asset — sale, swap, gift, donation, etc.
Dominion and control	The IRS's test for when you have actually received an asset for tax purposes — generally, when you can sell, transfer, or otherwise use it.
Fair market value (FMV)	The U.S. dollar price at which an asset would change hands between a willing buyer and seller. The reference point for valuing nearly every crypto event.
FIFO / LIFO / HIFO	Methods for choosing which lot of an asset is sold when you have multiple lots. First-in-first-out, last-in-first-out, highest-in-first-out.
Form 1099-DA	The IRS form custodial brokers must use to report digital asset transactions. Gross proceeds for 2025; cost basis added for 2026.
Hard fork	A protocol change that splits one blockchain into two, sometimes resulting in holders receiving a new asset.
Long-term / short-term	Held more than one year vs. one year or less. The single most consequential distinction in crypto tax.
Specific identification	A cost-basis method where the seller identifies, with documentation, which specific lot is being sold.
Staking	Locking digital assets to support a proof-of-stake blockchain in exchange for rewards. Rewards are taxed as ordinary income on receipt.
Wash-sale rule	A rule that disallows a loss when you repurchase a substantially identical *security* within 30 days. As of 2026, it does not apply to crypto — yet.

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PART 6

When to bring in a professional.

Some questions are quick. Others are not. The list below is a non-exhaustive set of situations where you should not file without involving a qualified tax professional — and ideally, an advisor who works with you year-round, not just at filing time.

- You received a Form 1099-DA and the numbers do not match your records.
- You have material DeFi, lending, or LP activity.
- You staked, mined, or got paid in crypto during the year.
- You received tokens from a hard fork, airdrop, or promotional drop.
- You sold or held NFTs that may be classified as collectibles.
- You moved residences between states during a year with realized gains.
- You are considering donating appreciated crypto to charity.
- You hold crypto inside a retirement account or business entity.
- You took losses you intend to claim against ordinary income.
- Anything about your situation made you pause while reading this guide.

Ready for a conversation that fits your situation?

Kimberlite Financial Services is a fiduciary advisory firm built around education-first, risk-aware planning — for traditional and digital assets alike. We do not sell tax preparation. What we do is help you build a long-term financial plan that takes the tax picture seriously and coordinates with the CPA who actually files your return.

Schedule a free, no-pressure introductory call:
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Final disclosure

This document was produced by Kimberlite Financial Services for general educational purposes. It summarizes U.S. federal tax concepts as understood at the time of writing (April 2026) based on publicly available IRS guidance, including Notice 2014-21, Revenue Ruling 2019-24, Revenue Ruling 2023-14, Revenue Procedure 2024-28, and the final broker reporting regulations for digital assets. Tax law changes; this guide does not. Nothing in this document is tax, legal, accounting, or investment advice, and nothing in this document creates an advisor-client relationship. Information specific to your situation requires a qualified tax professional. Investment advisory services are offered through Kimberlite Financial Services, a registered investment adviser. Registration does not imply a particular level of skill or training.